

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 ACDA-10 SAJ-01 SAM-01

IO-10 FEAE-00 INT-05 /137 W
----- 091290

R 021700Z JAN 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5419

INFO AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMEMBASSY OTTAWA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS SECTION 01 OF 02 BONN 00052

E.O. 11652: NA

TAGS: EGEN, ENRG, EFIN, GW

SUBJECT: CHANCELLOR SCHMIDT'S ECONOMIC MESSAGE
FOR 1976.

1. SUMMARY. IN END-OF-YEAR ECONOMIC MESSAGE TO
INDUSTRY-ORIENTED HANDELSBLATT, CHANCELLOR SCHMIDT
FINDS MORE CAUSE FOR CONFIDENCE IN INTERNATIONAL
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ECONOMY THAN WAS CASE 12 MONTHS AGO. HE STRESSES

THAT FRG MUST CONTINUE CLOSE WORK WITH PARTNERS TO RESOLVE WORLDWIDE PROBLEMS: INFLATION, CURRENCY REFORM, PROTECTIONISM, DIALOGUE WITH OPEC AND THIRD WORLD. IN DOMESTIC CONTEXT, CHANCELLOR PREDICTS INTER ALIA THAT PARITY CODETERMINATION WILL COME AND THAT INVESTMENT CONTROL WILL NOT. HE FORESEES "PROBABLE" REACTIVATION OF ECONOMY IN 1976, BUT CAUTIONS THAT FRG EFFORTS ALONE WILL NOT SUFFICE. END SUMMARY.

2. DECEMBER 31 "HANDELSBLATT, AS FIRST OF SERIES OF STATEMENTS IN SAME ISSUE, CARRIED LENGTHY ECONOMIC MESSAGE BY CHANCELLOR SCHMIDT WHICH REVIEWS 1975 AND FORECASTS COURSE FOR 1976. MESSAGE IS ANALYTICAL, CONFIDENT, GENERAL, AND AT TIMES POLEMICAL. CHANCELLOR LAYS GREAT WEIGHT ON ROLE WHICH INTERNATIONAL ECONOMIC FACTORS PLAY IN DECIDING ULTIMATE FATE OF WEST GERMAN ECONOMY. HE DRUBS THOSE DOMESTIC GROUPS WHO: SPREAD ECONOMIC INSECURITY, CRITICIZE SPD/FDP COALITION FOR ITS BUDGET AND MONETARY POLICIES, BELIEVE THAT FRG ALONE CAN CREATE ECONOMIC UPTURN, OR FAIL TO SEE NEXUS BETWEEN FOREIGN ECONOMIC PROBLEMS AND DOMESTIC ECONOMY.

3. SCHMIDT MAKES FOLLOWING FORECASTS FOR DOMESTIC ECONOMY:

A. PARITY CODETERMINATION WILL BE EXTENDED TO LARGE ENTERPRISES OUTSIDE COAL/STEEL SECTOR. SCHMIDT GIVES NO TIME FRAME, HOWEVER.

B. INVESTMENT CONTROL ("INVESTITIONSLLENKUNG") WILL NOT COME. NEITHER FRG NOR ITS COALITION GROUPS IN BUNDESTAG HAVE CONSIDERED IT, AND FURTHER DISCUSSION IN THIS VEIN IS "WASTE OF TIME".

C. LAW TO IMPROVE BUDGET STRUCTURE, WHICH ENTERED INTO FORCE JAN. 1, SHOWS FRG INTENTION TO ADAPT FEDERAL FINANCING TO NEW ECONOMIC SITUATION, SPECIFICALLY TO ASSURE THAT MEETING BUND'S CREDIT NEEDS IN COMING YEARS WILL NOT IMPEDE ECONOMIC UPSWING.

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D. VALUE ADDED TAX INCREASE, WHICH FRG HOPES TO ACHIEVE FOR JANUARY 1, 1977, WILL COME.

E. TAXATION OF BUSINESS WILL REMAIN UNCHANGED, WITH TWO EXCEPTIONS: (A) CORPORATION-TAX REFORM, NOW BEFORE BUNDESTAG, AND (B) CARRY-BACK RULE FOR SMALL AND MEDIUM ENTERPRISES, WHICH FRG NOW EXAMINING.

F. FRG'S ANNUAL ECONOMIC REPORT, DUE LATE JANUARY, WILL TRY TO SET PRECISE ECONOMIC GUIDELINES FOR WAGE

NEGOTIATIONS IN 1976. SCHMIDT QUALIFIES THIS BY
NOTING THAT FRG CAN BE NO WISER THAN CURRENT STATE OF
ECONOMIC FINDINGS, AND THAT FRG DOES NOT CONTROL WAGE-
RATE "AUTONOMY."

4. CHANCELLOR DEVOTES MAJOR SECTION OF STATEMENT TO
1975 INTERNATIONAL ECONOMIC SCENE WHICH CAPPED BY
RAMBOUILLET SUMMIT AND ONSET OF CIEC. HE EMPHASIZES
THAT FRG, CONTRARY TO PREVAILING WISDOM OF 1960'S, CAN
NO LONGER ACHIEVE FOREIGN ECONOMIC BALANCE BY ITS
OWN EFFORTS OR REGARD ECONOMIC GROWTH AS CONSTANT
FACTOR. INSTEAD, FRG MUST RELY ON CONTINUED CLOSE
COOPERATION WITH ITS TRADING PARTNERS TO CREATE

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GENERAL ECONOMIC ENVIRONMENT FAVORABLE TO GROWTH. HIS ANALYSIS FEATURES THREE HISTORICAL DEVELOPMENTS:
A. INFLATION. SCHMIDT CRITICIZES "CARELESS" ATTITUDE OF GOVERNMENTS IN MANAGING NATIONAL ECONOMIES OVER PAST DECADE. AGGRAVATED INFLATION AND DEFICITS IN BALANCE OF PAYMENTS WERE LARGELY DUE TO FORCE OF US EXAMPLE, FED BY VIETNAM, WHICH INFECTED WORLD ECONOMY. SCHMIDT SAYS IT WOULD BE "ABSURD" TO POSIT US
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DEVELOPMENTS AS SOLE CAUSE OF WORLD INFLATION, THOUGH US INFLATIONARY POTENTIAL PLAYED "GREATEST ROLE" IN WORLD ECONOMY.

B. COLLAPSE OF BRETTON WOODS SYSTEM FOLLOWED ALMOST AUTOMATICALLY IN 1971-1973. CHANCELLOR SAYS THERE WAS AT TIME NO POLITICALLY ACCEPTABLE ALTERNATIVE TO FLOATING EXCHANGE RATES, WHICH LED HOWEVER TO GREAT INSECURITY IN WORLD ECONOMY. GERMAN ENTERPRISES, AFTER BRIEF PERIOD, ADAPTED WELL TO NEW SITUATION, BUT WORLD-WIDE MANY SMALLER FIRMS DID NOT. RESULT WAS SHRINKAGE OF WORLD TRADE.

C. OIL CRISIS. SUDDEN OPEC HIKE OF OIL PRICE CREATED NO SERIOUS BALANCE-OF-PAYMENTS PROBLEMS FOR FRG BUT LEFT LASTING EFFECTS IN PRICES AND COSTS, WITH MAJOR WARPINGS AND ADJUSTMENT PHASES. OIL PRICES COST WEST GERMAN ECONOMY DM 20 BILLION IN FIRST YEAR AND AFFECTED MAJOR TRADING PARTNERS EVEN MORE SEVERALY, LEADING TO REDUCED TRADE AND RISING TIDE OF PROTECTIONIST SENTIMENT. HERE, ACCORDING SCHMIDT ANALYSIS, LIES MOST SERIOUS IMPACT OF OIL CRISIS ON WEST GERMAN ECONOMY.

5. SCHMIDT CONCLUDES MESSAGE WITH LIST OF ECONOMIC ACHIEVEMENTS AND PROSPECTS FOR 1976. HE USES RAMBOU-ILLET SUMMIT AND ONSET OF CIEC AS IMAGES FOR PROGRESS: DAMPENED INFLATION, RETURN TO MORE STABLE EXCHANGE RATES IN EC AND VIS-A-VIS US, DIALOGUE WITH OPEC, STIMULATION OF WORLD DEMAND THROUGH DEFICIT SPENDING, PARTIAL DISMANTLING OF CONFRONTATION WITH THIRD WORLD, COMMON QUEST TO RAIN FULL EMPLOYMENT AND RESTRAIN PROTECTIONISM. MESSAGE DOES NOT ALLUDE TO RECENT UK IMPORT CONTROLS BUT FINDS "OUTSTANDING SIGNIFICANCE" IN FACT THAT, CONTRARY TO EXPERIENCE OF '30'S, PROTECTIONISM HAS NOT BECOME "GENERAL REFUGE OF GOVERN-

MENTS." CHANCELLOR CONCLUDES THAT CIEC WILL NEGOTIATE
ISSUES OF MAJOR IMPORT FOR GERMAN INDUSTRY, BUT THAT IT
REMAINS TO BE SEEN WHETHER DIALOGUE WILL LIVE UP TO
GENERAL EXPECTATIONS. HE CAUTIONS AGAINST TWO OTHER
UNCERTAINTIES FOR 1976: NORTH-SOUTH CONFLICT REMAINS,
AND POLITICAL HOTBEDS (UNSPECIFIED) CAN EASILY HAVE
ECONOMIC IMPLICATIONS. "HOWEVER, IN THE INTERNATIONAL
SPHERE WE ARE ENTITLED TO HARBOR MORE OPTIMISM AT THE
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ONSET OF 1976 THAN WE WERE 12 MONTHS AGO."

6. OTHER YEAR'S-END STATEMENTS IN HANDELSBLATT WERE BY
INTER ALIA BUNDESBANK PRESIDENT KLASSEN, MINECONOMICS
FRIDERICH, AND CSU LEADER STRAUSS. SEPARATE REPORT
TO FOLLOW.
HILLENBRAND

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